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DIRECTORATE OF INTELLIGENCE

# Intelligence Memorandum

China: Economic Factors Affecting Imports of US Grain

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ER IM 72-150 October 1972

101 Copy No.

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## CENTRAL INTELLIGENCE AGENCY Directorate of Intelligence October 1972

INTELLIGENCE MEMORANDUM

CHINA: ECONOMIC FACTORS AFFECTING IMPORTS
OF US GRAIN

#### Summary and Conclusions

- 1. Stepped up purchases of wheat by the People's Republic of China (PRC) in mid-1972 are related to (a) disruptions in delivery schedules caused by the Canadian dock strike and (b) a short-fall in the harvest of grain in north China. These purchases are unusual because they include the first contracts for US wheat since 1949, when the Communist government was established, and the first contracts for Australian wheat since 1969, when Canberra fell out of favor with Peking.
- 3. None of the major agricultural regions in China is expected to have outstanding harvests in 1972. Harvest prospects are relatively more favorable in south China. Whereas the harvest of early rice in the south was probably down from last year, the harvest of summer grain was up sharply and the harvest of intermediate and late rice should be good. In the North China Plain where imported grain is required to feed the major cities the situation is tighter because of the indifferent harvest of winter wheat and the failure to meet the target for sown acreage of autumn-harvested grain.
- 4. Severe pressure on international grain stocks and prices apparently have upset China's usual procedures for contracting for longer term deliveries of wheat. Normal procedure has been to contract in the fall or early winter for grain to satisfy minimum projected requirements and to supplement

Note: This memorandum was prepared by the Office of Economic Research.

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these initial purchases with short-term purchases if needed in the following year. The Chinese are buying larger than normal quantities of grain this fall for delivery in calendar year 1973 — already a total of roughly 2 million tons. Because of unsettled conditions in the international wheat trade — including the enormous purchases of US grain by the USSR — wheat may not be available on short notice next year. Thus the Chinese may be purchasing enough grain this fall to cover all of their projected requirements for 1973.

- 5. In all, the PRC will import about 4.5 million tons of wheat in 1972 about 50% more than in 1971. Imports in 1973 are expected to total at least 4.25 million tons. Thus far, contracts for wheat have been entered into with Canada (750,000 tons) and Australia (1 million tons) for delivery in 1973. Additional purchases are expected to be made from Canada China's preferred source and perhaps from other exporters as well.
- 6. The recent purchase of US grain may be only a stopgap to offset the temporary effects of the Canadian dock strike. Canada will continue to supply the lion's share of Chinese wheat imports; Australia will likely supply most of the remainder; and France may be tapped for smaller amounts, as in the past.

#### Intro uction

7. The People's Republic of China (PRC) has contracted for the delivery of almost 50% more wheat in 1972 than in 1971 and is purchasing additional large quantities for delivery in 1973. In a recent splurge of buying activity, the PRC has purchased US wheat for the first time since the establishment of the Communist government in China and has also signed a contract with Australia, the first since 1969. This memorandum explores PRC harvest prospects for 1972, grain import requirements, and the economic factors affecting the purchase of grain, particularly from the United States.

#### Discussion

#### Main Trends in the 1960s

8. Over the past decade, China has regularly imported large quantities of grain to maintain rations in northern cities. This policy is aimed at (a) reducing the need for procuring grain for the chronically grain-deficit areas in north China and (b) freeing acreage in north China for the production of essential industrial crops such as cotton and oilseeds. Thus

the quantity of imports in any given year has tended to fluctuate with the harvest of grain in the North China Plain (the Winter Wheat - Kaoliang Region shown on Figure 1).

- 9. In 1961 the PRC for the first time was forced to import large quantities of grain as an emergency measure to alleviate the near famine that prevailed after the collapse of the disastrous Leap Forward. Contracts were short-term normally for six months and Peking expected that imports would terminate once crop conditions returned to normal. Nonetheless, in the winter of 1963/64 the PRC began to enter into longer term contracts. The first of these contracts was for the delivery of grain from Canada over a three-year period. Additional contracts were negotiated for short-term deliveries of grain from secondary suppliers primarily Australia and France as needed. As shown in Table 1, annual imports were at least 5 million tons in every year through 1966.
- 10. The switch to longer term imports was made necessary by the inability of China's agriculture to satisfy minimum requirements for both grain and essential non-grain crops in the face of population pressure on a fixed and already intensively cultivated land area. Following the disastrous harvests of 1959-61, the Chinese made a concerted effort to regain agricultural self-sufficiency. In 1962, substantially greater inputs of fertilizer and machinery were allocated to agriculture a crucial switch in policy from the first decade of Communist rule, when the agricultural sector had to fend for itself. Growing conditions did return to near normal; nevertheless, grain output in 1962-64 at best only approximated the 185 million tons produced in 1957, and by 1964 there were more than 90 million more mouths to feed (see Table 2). Another sobering factor was that part of the recovery in the grain harvest was the result of shifting industrial crop acreage into grains.
- 11. New investment resources flowed into agriculture in a steadily increasing stream in the 1960s, even during the political turmoil of the Cultural Revolution. The cumulative effect of this investment bore fruit by the end of the decade, when the 185-million-ton benchmark of 1957 was finally left far behind. Investment had a particularly beneficial effect in the already high-yield areas of south China. In the North China Plain, however, the digging of a massive network of drainage ditches proved to be only a partial success. Whereas drainage ditches ease the threat of waterlogging and flooding, they are unable to supply water for irrigation. Historically, drought has been more destructive to crops than flooding in the North China Plain.
- 12. In spite of the continued growth of population and the particular problems of the North China Plain, the government apparently was confident the gap in grain output would soon be closed, and Peking reverted

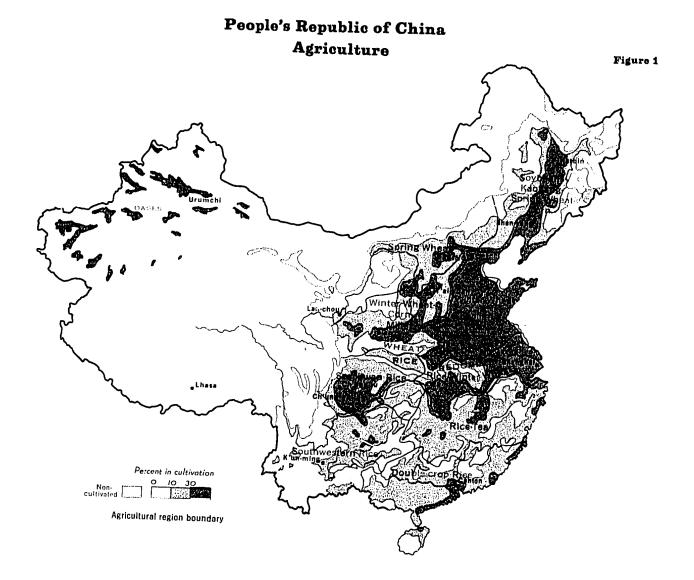


Table 1

People's Republic of China: Imports of Grain<sup>2</sup>

									<del></del>		Tho	usand Metr	ic Tons
	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	<u>1971</u>	<u>1972</u>	1973
January-June							•						
Canada	1,134	1,374	1,053	877	800	970	877	1,162	1,085	1,186	1,565	1,517	750 <u>b</u> i
Australia	1,449	1,013	1.771	1,395	1,500	693	1,524	1,038	607	1,131	13	r	500 <sup>©</sup>
Argentina	30	234	0	1,127	450	1,300	100	0	0	0	0	0	-
France	27	0	626	128	0	110	0	600	0	0	0	0	
Other	10	549	141	374	12	0	90	0	0	0	0	0	50₫i
United States	0	0	0	0	0	0	0	. 0	0	0	0	0	-
Total	2,650	3,170	3,591	3,901	2,762	3,073	2,591	2,800	1,692	2,317	1;578	1,517	1,300
July-December													
Canada	1,130	635	430	1,198	800	1,598	207	1,011	644	781	1,448	2,433	-
Australia	1,125	216	1,231	830	1,300	614	1,335	553	1,241	1,087	0	0	500Ը∣
Argentina	341	291	35	282	1,050	300	0	0	0	0	0	0	-
France	230	284	188	97	υ	0	0	0	331	447	0	0	-
Other	0	408	14	297	0	0	0	0	0	0	0.	150 <u>d</u> j	-
United States	0	0	0	0	0	0	0	0	0	0	0	408	-
Total	2,826	1,834	1,898	2,704	3,150	2,512	1,542	1,564	2,216	2,315	1,448	2,991	500
January-December													
Canada	2,264	2,009	1,483	2,075	1,600	2,568	1,084	2,173	1,729	1,967	3,013	3,950	750
Australia	2,574	1,229	3,002	2,225	2,800	1,307	2,859	1,591	1,848	2,218	13	0	1,000
Argentina	371	525	35	1,409	1,500	1,600	100	0	0	0	0	0	-
France	257	284	814	225	0	110	0	600	331	447	0	0	-
Other	10	957	155	671	12	0	90	0	0	0	0	150₫	50 <u>₫ı</u>
United States	0	0	0	0	0	0	0	0	0	0	0	408	-
Total	5,476	5,004	5,489	6,605	5,912	5,585	4,133	4,364	3,908	4,632	3,026	4,508	1,800

a. Data for the years 1961-71 and the first half of 1972 are delivered amounts; data for the second half of 1972 and 1973 are for amounts to be delivered under known contracts.

b. For delivery in the first quarter of 1973.

c. Total amounts under this contract, 1 million tons; it is estimated that amounts to be delivered in the first half of 1973 and the second half of 1973 will be equally divided.

Table 2

People's Republic of China:
Output of Grain and Population

<u>Year</u>	Output of Grain (Million Metric Tons)	Population !! (Million Persons)
1952	154	570
1957	185	642
1962	175-180	710
1963	175-180	721
1964	180-185	735
1965	190-195	751
1966	195-200	766
1967	210-215	783
1968	195-200	800
1969	200-205	818
1970	215-220	836
1971	215-220	855
1972	215-220 <sup>ы</sup>	874

a. Mid-year.

to short-term contracts in 1969. Initially, one-year contracts were negotiated with both Canada and Australia. In 1970 (and again in 1971) the PRC favored only Canada with contracts. In these years, no wheat was purchased from Australia, ostensibly because of the unsatisfactory position of the Australian government on diplomatic recognition of the PRC. Peking slashed its imports of grain in 1971 to 3 million tons, substantially below the trend established over the prior decade. In part, the regime took this action to help redress its foreign trade deficit of 1970. The excellent 1970 crop appears to have allowed the regime to cut back grain imports without hazarding consumption standards.

#### Harvest Performance and Prospects in 1972

13. The Chinese grain harvest consists of an early and a late (autumn) harvest. Of the two, the late harvest normally provides almost two-thirds of the total annual output of grain.

b. Preliminary.

#### Assessment of the Early Harvest

- 14. The early harvest includes: (a) summer grain (primarily winter crops\* winter wheat, barley, and pulses) and (b) early rice. Winter wheat is the only summer grain grown in the North China Plain and north China. To the south in the Yangtze Valley less wheat and more barley and pulses are planted. In the extreme south, pulses are the predominant summer grain. Conversely, early rice is concentrated in the extreme south and decreases in importance from south to north. Rice is a minor crop in north China, and no early rice is grown in this region.
- 15. Normally the Chinese press reports qualitative information about the early harvest. In 1972 the press has been unusually restrained in reporting on the early harvest and has been careful to distinguish between summer grain and early rice when reporting crop results, probably because the output of summer-harvested grains was the more favorable. The few reports on the early rice crop have been unusually reserved in tenor. The official New China News Agency (NCNA) reported that total output of early rice was "higher than last year"; even this modest optimism has not been borne out by the normally more realistic provincial reports. Harvest appraisals have been toned down in recent weeks. No longer claiming an increase in output, NCNA stated on 24 September, "Good harvests of wheat, barley, and other summer crops as well as early rice were reaped this year, although some areas were affected by the worst weather conditions in many years."

#### Summer Grain

- 16. The early optimism over the state of the summer grain harvest was well founded. In south China the acreage of winter grain crops was greatly enlarged. In north China, prolonged shower activity in the fall of 1971 prevented the fulfillment of the sowing plan for winter wheat. However, unusually favorable moisture conditions throughout most of the major winter wheat growing areas in the spring and early summer of 1972 promised to more than make up for any shortfall in acreage.
- 17. The Chinese were so confident of an outstanding summer harvest that the official press initially reported, "Total output (of summer grain) as estimated in the course of reaping and threshing was higher than last year, the post-liberation peak year." Such claims were premature, at least for winter wheat. The weather turned very dry over much of the North China Plain during most of June, reducing the size of the harvest appreciably. On 22 June, NCNA had reported that wheat cutput in Shantung Province a leading producer was expected to exceed the

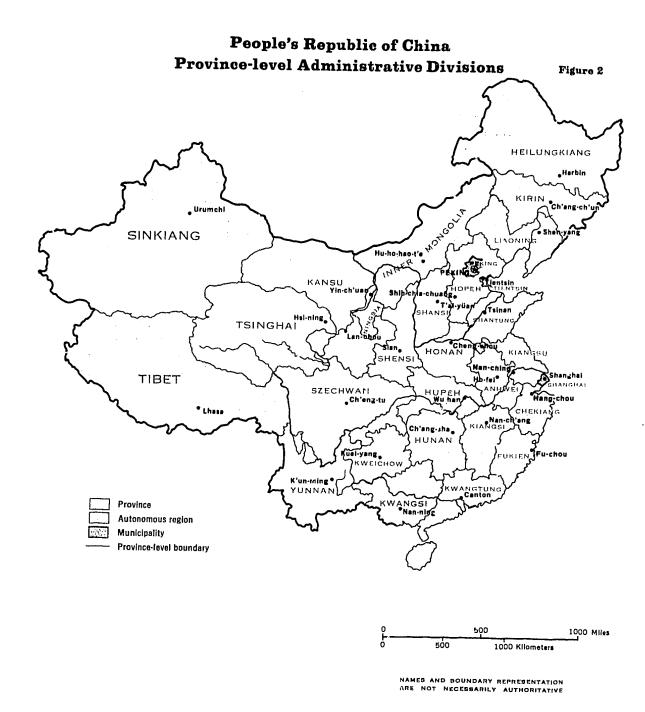
<sup>\*</sup> Winter crops are sown in the fall and are harvested in the spring and early summer of the following year.

"record 1971 crop by a big margin." This was followed by a subsequent statement on 28 July – after the completion of the harvest – that "in 1971 the total yield and production of grain (in Shantung Province) set all time highs, and this year another bumper harvest of wheat was reaped." And, again on 9 August, "Shantung, despite natural disasters, achieved another good harvest of wheat." To the south of the North China Plain, the weather is believed to have remained generally favorable until after the harvest of summer grain was completed.

18. Natural calamities in the spring and summer of 1972 were reported by the Chinese to be the most severe in several years. Information has indicated the incidence of severe drought and flooding; nonetheless, the areas affected by these disturbances were generally limited in size. Among the provinces with admittedly disappointing harvests — Shansi, Shensi, Chekiang, Hupeh, and Peking municipality (see Figure 2) — only Shansi and Hupeh are large producers of summer-harvested grain.

#### Early Rice

- 19. Harvest prospects for the equally important early rice crop were poor from the beginning. In 1971 a record crop of early rice was gathered entirely on the strength of a 20% increase in acreage. In 1972 the acreage had to be cut back because the labor and farm inputs were not sufficient to support an expansion of this magnitude. As a consequence, over the winter of 1971/72 there were substantial shifts of acreage into summer-harvested grain. Thus in south China the provinces reporting the biggest increase in the output of summer grain this year have also reported a large expansion in the acreage of these crops over last year.
- 20. Unseasonal cold, drought, plant disease, insects, and flood in turn took a toll of the early rice crop in 1972. Transplanting in Kwangtung Province - by far the most important producer - was delayed by the late arrival of the spring monsoon. Severe torrential rains and, later in the growing season, plant disease and insects damaged the crop. The crop was first reported to be a "comparatively good bumper harvest with yield and output increased over 1971." The assessment was later downgraded to a "relatively good harvest" without reference to any increases over 1971. Conditions were in general less severe in east and central China; nonetheless, output was probably down in these areas because a part of the early rice acreage was shifted to summer-harvested grain and rapeseed. Claims of large increases in output of early rice have been restricted to Yunnan, Szechwan, Anhwei, and Kweichow Provinces. All of these provinces are on the fringe of the zone of cultivation of rice as a major crop, have heretofore been minor producers of early rice, and have claimed or implied a large increase in early rice acreage for 1972.



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#### Other Crops

21. The government's policy of paying higher prices for industrial crops in 1972 has caused some shift in acreage away from grain crops. The early harvest in particular was affected by the substitution of industrial crops for grain. A case in point is the acreage of winter rape, grown largely in the rice areas of central and east China. The acreage of the crop was reportedly increased by 40% over that of the winter of 1971/72. This unusually large acreage of rape was grown on fields that otherwise could have been planted with summer grain or early rice. In contrast, no instances of major increases in the acreage of peanuts, soybeans, or cotton — the major industrial crops that compete for acreage with the autumn-harvested grain crops — have been reported.

#### Harvest Results

22. The combination of the mediocre crop of winter wheat in north China and the increased output of summer grain in south China was not sufficient to offset the decline in the output of early rice. Accordingly, output of early grain – normally more than one-third of China's annual production of grain – was down, although not sufficiently to cause major problems for the regime.

#### Outlook for the Late Harvest

23. It is much too early to predict the outcome of the more important autumn (late) harvest. To date, spring wheat is the only autumn crop to be harvested in its entirety. Output of this crop — which accounts for about 10% of China's wheat production and for only a minor share of the autumn harvest — was down from 1971 despite a small increase in acreage.

#### Intermediate and Late Rice

24. Prospects are generally good for a favorable harvest of intermediate and late rice. The combined acreage of these two crops is at least as large as in 1971 and could be higher. Weather conditions affecting these rice crops have been mixed; serious calamities thus far have been restricted to local flooding associated with typhoons in east China and to drought in parts of Hupeh, Hunan, and Kiangsi Provinces.

#### Miscellaneous Grains

25. The outlook for autumn-harvested corn, millet, and kaoliang (Chinese sorghum) – collectively the most important food crop by far in north China – is unpromising. A part of these crops is sown in the spring, the remainder in the summer after the harvest of winter wheat. Below

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normal rainfall throughout sost of June prevented the summer sowing plan from being fulfilled and was also detrimental to the crops sown earlier in the year. The Chinese are attempting to offset this deficit through a concerted effort to enlarge the acreage of winter wheat, which will be harvested next year.

#### Overall Harvest Prospects

26. At this early juncture, it appears that China's harvest of grain in 1972 will be about the same as the 1971 harvest, which also suffered from unfavorable weather. Overall growing conditions are probably worse this year; on the other hand, the agricultural sector in 1972 is benefiting from substantial increases in inputs of chemical fertilizer, pumps and other irrigation and drainage equipment, and agricultural machinery. Harvest prospects are relatively more favorable in south China. Whereas the harvest of early rice was probably down from last year, the harvest of summer grain was up sharply and the harvest of intermediate and late rice should be favorable. In the North China Plain — where imported grain is required to make ends meet — the situation is tighter because of the shortfall in the acreage of autumn-harvested grain and the indifferent harvest of winter wheat. The harvest in northwest and northeast China will probably be only average at best.

#### Effect of the Harvest on Imports

- 27. Import requirements in 1972 are undoubtedly greater than those of 1971. As stated above, the unusually good 1970 harvest was followed by a cut in wheat imports to about 3 million tons in 1971. The 1971 harvest was not as good as that of 1970. Consequently, in December 1971 the Chinese contracted for the delivery of 3.2 million tons of Canadian wheat for delivery during January-December 1972.
- 28. The mediocre harvest of winter wheat in 1972 and the prospects of a shortfall in the output of corn, millet, and kaoliang in north China made a second purchase necessary. In June 1972 a contract again with Canada was signed for 1.5 million tons of wheat; deliveries on this contract are believed to be about equally divided between the fourth quarter of 1972 and the first quarter of 1973.
- 29. On the basis of harvest conditions alone, the Chinese probably will require about 4 million tons of imported grain in 1972, about one-third more than was delivered in 1971. Grain supplies in the PRC clearly are tighter than usual this year, and additional imports may yet be needed to tide northern cities over the coming winter and spring. Even so, neither shortfalls in the Chinese crop nor the effects of exogenous factors such as the strike of Canadian longshoremen have created an emergency situation.

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#### Other Factors

35. Unsettled conditions in the international wheat trade caused in part by large Soviet wheat purchases may force the Chinese to buy larger than normal quantities of grain during the fall and winter of this year. Beginning in the fall of 1969, the Chinese have entered into one-year contracts for the delivery of grain in the next calendar year. These contracts have been made after the harvest is completed and the preliminary import requirements are known. Only minimum quantities are normally contracted for at this time, and additional quantities are contracted for — usually in the summer of the following year — as needed. Because wheat may not be available on short notice next year, the Chinese may be purchasing enough grain this fall to cover all of their projected requirements for 1973.

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- The purchase of 1 million tons of wheat from Australia for 38. delivery in 1973 's likely to be followed by at least one more deal with Canada. The turn to Australia presumably reflects the PRC judgment that Canada may be unable to supply more than 3.25 million tons of wheat next year and that additional amounts will be necessary to meet Chinese requirements. In addition to the 750,000 tons of wheat from Canada already bought for delivery in 1973, the PRC may purchase an additional 2.5 million tons of Canadian wheat for delivery in 1973. Thus China may enter into contracts totaling 4.25 million tons for delivery in 1973.
- At this point, US chances for becoming a regular exporter of large quantities of wheat to the PRC are not very clear. The recent purchases of US grain appear in large part to have been the most practical means of obtaining grain to offset the temporary effects of the Canadian longshoremen's strike. Because of unusual demands on international grain suppliers, the PRC found the United States was the only available source.

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To judge from the contracts entered into for 1973 and inquiries for additional deliveries, Peking still views Canada as its primary supplier with Australia, France, and, perhaps, Argentina as secondary suppliers. Short-term US prospects in the Chinese market would improve if the above suppliers suddenly became unable to meet their contracts with the PRC or if there were a calamitous failure in the current Chinese fall harvest. Neither eventuality seems probable at this time. This conclusion is based on economic considerations; future Chinese purchases of US grain are conceivable as a political gesture.

#### PRC Grain Exports

Despite the current uncertainty over domestic grain availability, 40. the PRC should have little difficulty in meeting its commitments to export

grain. The Chinese undoubtedly consider North Vietnam to be the most important account. So far in 1972, scheduled exports to North Vietnam are running considerably above the rates of past years. Deliveries have consisted almost entirely of rice, corn, and soybeans. From time to time the Chinese have offered to ship small quantities of imported and domestically produced wheat to North Vietnam. The tonnages involved have been too small to influence Chinese decisions to import wheat.

- 41. Barter, aid, and commercial sales of rice to all other areas are likely to remain in the neighborhood of 800,000 tons in 1972, the average of the past few years. At present the demand for rice in the international grain trade exceeds the stocks available in the major exporting countries. The PRC may find itself courted by strange suitors by virtue of its position as a large rice producer. Chinese exports of rice have been less than 0.5% and 1.0% of the total output of all grain and rice, respectively. Thus, if the price were right, China could make above-normal exports available out of the 1972 crop even though the harvest is unlikely to set a record.
- 42. As in the past, income from rice sales will be far below the costs of wheat imports. For example, the PRC could earn approximately \$143 million from the sale of rice in 1972 if (a) exports totaled 800,000 tons, (b) all sales were commercial, and (c) the sale price per ton were equivalent to that paid for premium rice in world trade (\$178.20 per ton, F.O.B. Bangkok as of 4 September). By comparison, the costs of importing 4.5 million tons of wheat in 1972 will total \$300 million (\$66.70 per ton, F.O.B. Vancouver) more than double the most China could hope to earn from the export of rice under the most favorable of circumstances.